



Acquisition of AIG's US Personal Auto Group

April 16, 2009



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Overview – transaction



- Zurich and the Farmers Exchanges¹ have agreed to purchase AIG's US Personal Auto Group (PAG) for USD 1.9bn plus the assumption of USD 0.1bn of debt.
 - PAG comprises 21st Century, including AIG Direct, and their auto independent agency business.
 - At an attractive price:
 - Price-to-equity: 0.85x
 - Price-to-tangible equity: 1.0x
- The Exchanges will pay USD 1.4bn and assumes USD 0.1bn of debt while Zurich will pay USD 0.5bn.
- The Exchanges will increase the existing All Lines Quota Share reinsurance treaty to 40% from 25% ceding additional approx. USD 2.8bn annualized GWP to Zurich to remain capital neutral.
- Zurich will issue USD 1.1bn of equity and USD 0.4bn of hybrid securities² to fully cover the capital requirements of the transaction and the related increase in reinsurance.

¹ Zurich Financial Services has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides management services to the Farmers Exchanges and receives fees for its services.

² Deeply subordinated debt instrument (Capital Note)

Overview – strategic rationale



For Farmers Exchanges

- The Farmers Exchanges to reach their strategic GWP target.
- This deal is a unique opportunity as it offers:
 - a US direct platform, a scarce asset,
 - in direct auto, the fastest growing distribution channel in the US personal lines market, and
 - achieves immediate scale as Farmers becomes #3 in the US traditional direct channel
- Offers significant cross-sell opportunities and enhanced customer reach
- Further diversification of Farmers' book of business as additional auto business reduces relative CAT exposure

For Zurich

- Enhances Group's percentage of low volatility fee income and Farmers Management Services' BOP contribution to increase.
- Enhanced free cash flow for the Group
- High expected ROE return as business model is capital light
- Attractive financing mix is expected to lead to:
 - Solvency I to be slightly up after transaction
 - Economic solvency to be marginally up after transaction
 - Transaction to be accretive to EPS in year 1

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US Personal Lines market



- Industry analysts forecast continued slow premium growth, based on slowing US economy (particularly auto and home sales) and increased competition. This supports continued industry consolidation in pursuit of economies of scale.
- Direct distribution companies (mono-lines) have achieved higher top-line growth than traditional multi-line companies:
 - Market share for direct response writers increased from 7.7% to 18.0% from 1997 to 2006.
 - Multi-lines must compete on agent/customer service, market segmentation & product excellence.
 - However, national scale of multi-lines increases the benefits of a direct platform acquisition.

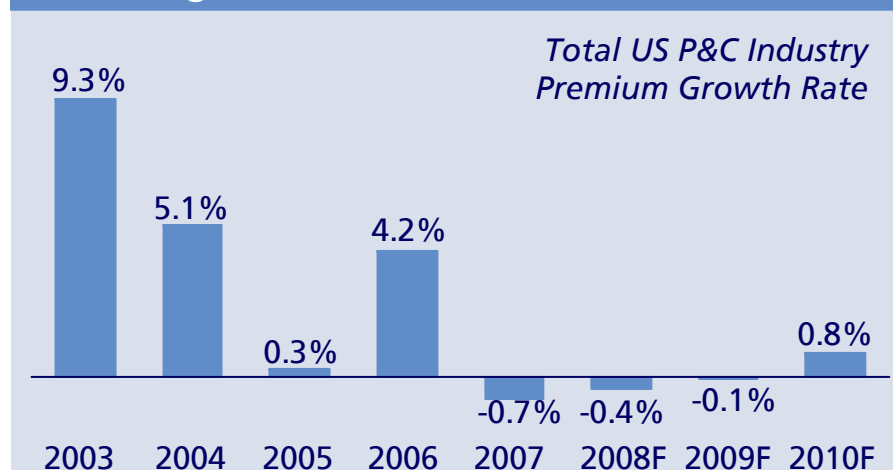
Market shares in 2007 (US personal lines)

Rank	Institution	DPW (USDm)	Market Share (%)
1	State Farm	43,709	18.9
2	Allstate	25,518	11.0
3	Zurich (Farmers) / PAG *	17,477	7.6
3	Zurich (Farmers)	13,385	5.8
4	Progressive	11,777	5.1
5	Berkshire Hathaway (GEICO)	11,731	5.1
6	Nationwide	10,734	4.6
7	Liberty Mutual	10,249	4.4
8	USAA	8,624	3.7
9	Travelers	6,285	2.7
10	American Family	5,076	2.2
11	PAG*	4,092	1.8
Total DPW		231,110	100.0

Note: * Excludes AIG's Private Client Group

Source: SNL

Premium growth rate (NWP) in the market

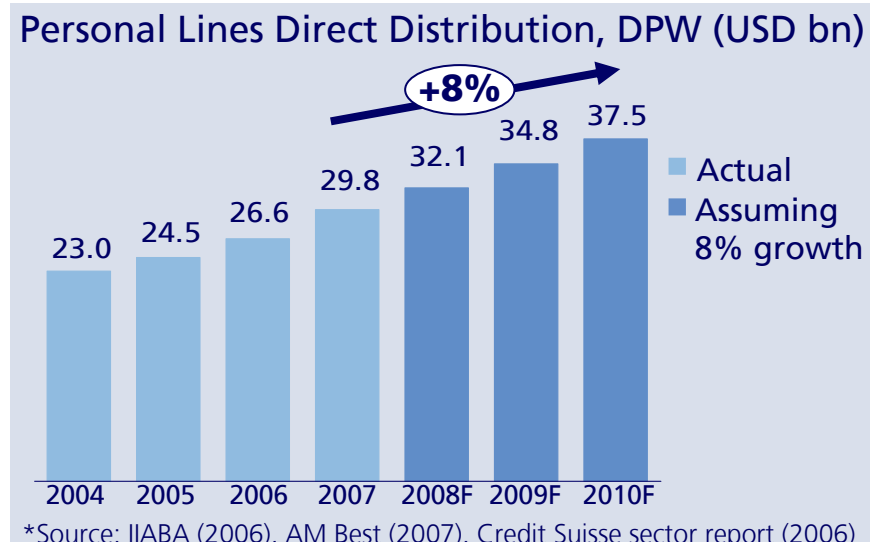
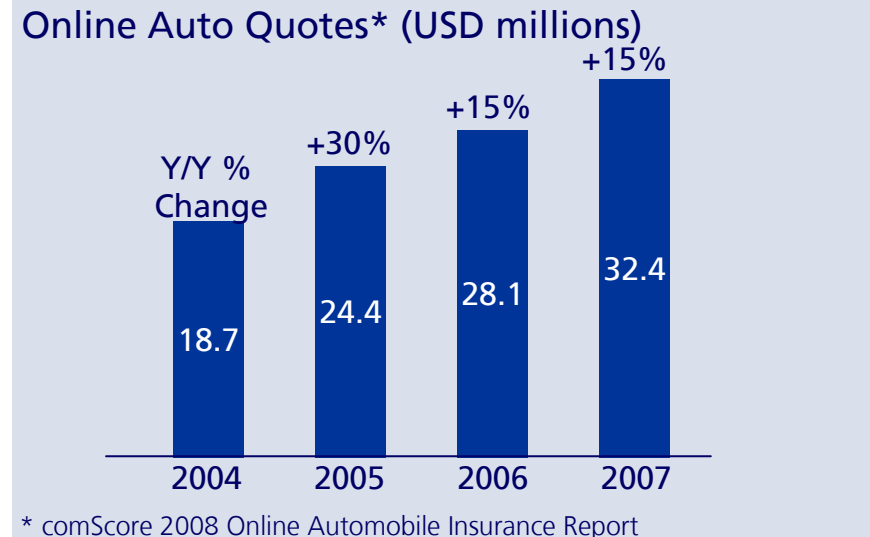


Source: Dowling and Partner U.S. Property/Casualty (Re) Insurance Industry Forecast; Update: IBNR #23. Volume XV.

The overall US P&C market is projected to flatten. However, the direct channel is growing and may reach USD 37 billion by 2010.



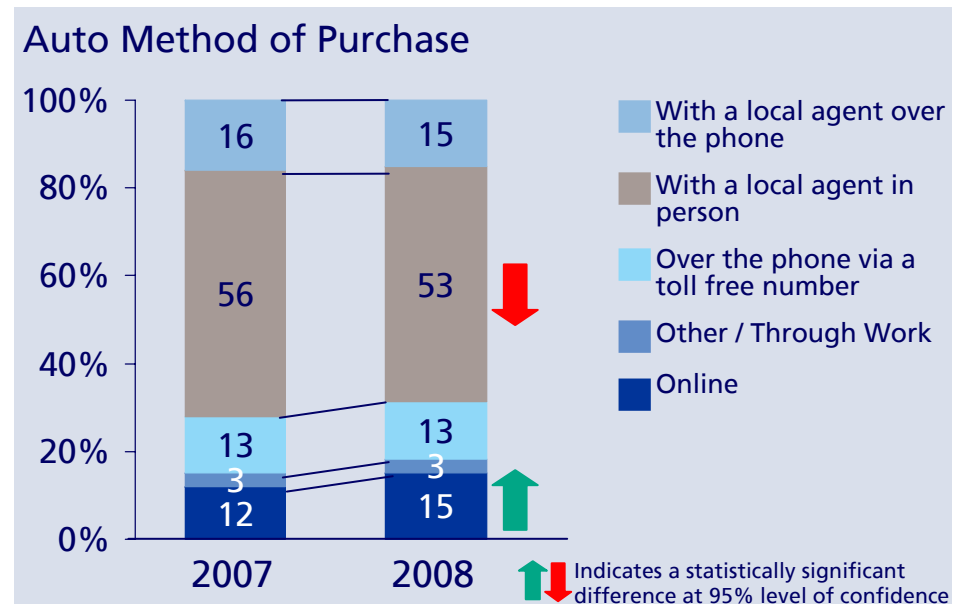
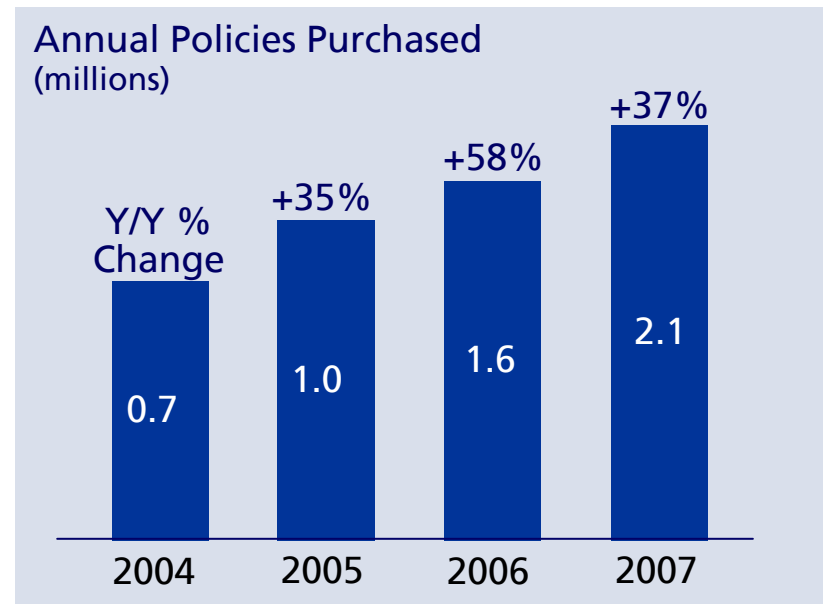
- The direct channel is the only channel gaining market share among the insurance shopper population.
- Significant change over last 3 years in consumer insurance shopping behavior with the number of online quotes almost doubling 2004 – 2007.
- 75% of people that purchased insurance in 2007 shopped for it first on the Web, and over 46% also got a quote on the Web.
- Personal lines direct channel is expected to grow 8% to over USD 37bn by 2010.



Consumer online buying trends



- In 2008, 44% of buyers who bought insurance from a new insurer purchased it directly, 3 percent increase from 2007.
- Sales transactions processed entirely on the Web now account for 21% of all new customer insurance sales.
- Celent estimates that nearly 30% of auto insurance sales will take place online by 2011, compared with 10% of individual life insurance sales and over 50% of individual health insurance sales.



Sources: comScore 2008 Online Automobile Insurance Report

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AIG's US Personal Auto Group (PAG)



Overview

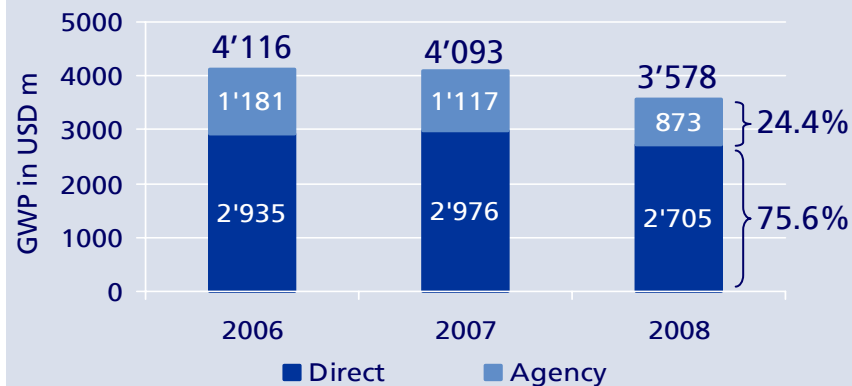
- AIG's US Personal Auto Group (PAG), a unit of the Personal Lines Division, offers auto insurance countrywide.
- PAG comprises the following two distinct business segments:
 - The Direct business, which is a product of the integration of 21st Century and AIG Direct. This was rebranded as 21st Century at the beginning of 2009.
 - AIG Agency Auto, which provides predominately non-standard auto insurance through a network of over 24'000 independent agents/brokers across 38 states.
- PAG employs approximately 6'000 people.
- AIG also writes domestic private passenger auto insurance through its Private Client Group (PCG), which is not included in the transaction.

Financial Summary – Pro forma excl. PCG

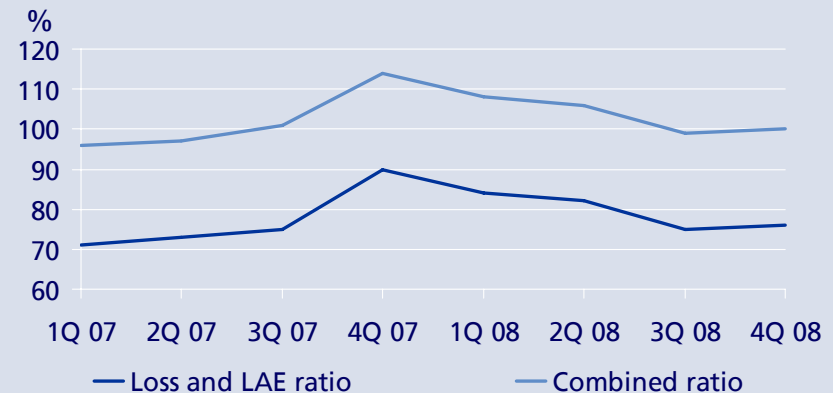
in USD millions	2005	2006	2007	2008
Gross Premium Written	4'104	4'116	4'093	3'578
Net Premium Written	4'065	4'080	4'052	3'547
Net Premium Earned	4'058	4'082	4'046	3'809
Losses and LAE Incurred	3'133	2'976	3'155	3'025
Underwriting Expenses	903	948	949	860
Total Loss & Expenses	4'036	3'924	4'104	3'885
Underwriting Profit	23	157	-59	-76
Net Investment Income	193	193	199	181
Interest Expense on Debt	-6	-6	-6	-6
STAT Operating Income	210	345	134	99

<i>Statutory Underwriting Ratios:</i>				
Loss and LAE Ratio	77.2%	72.9%	78.0%	79.4%
Underwriting Expense Ratio	22.2%	23.2%	23.4%	24.2%
Combined Ratio	99.4%	96.1%	101.4%	103.7%

GWP by Distribution Channel (Direct vs. Agency)



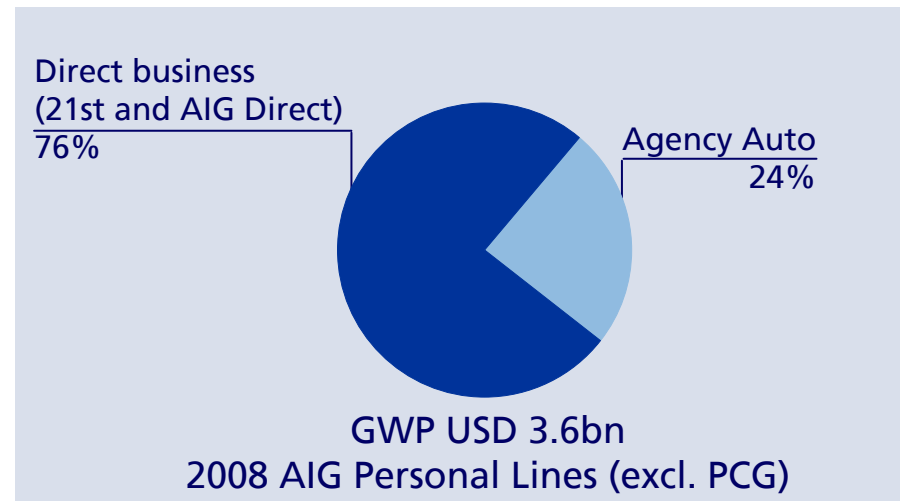
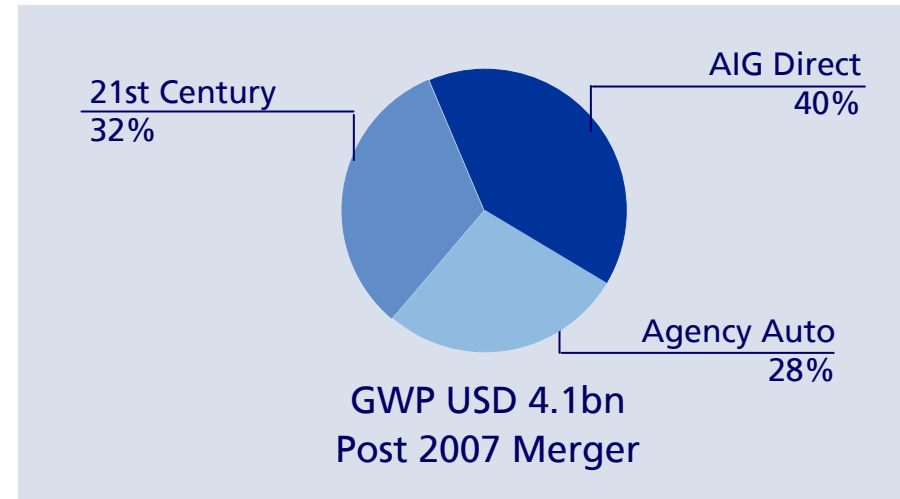
Combined Ratio Analysis



AIG's US Personal Auto Group: much more than just 21st Century



- In September 2007, AIG bought the minority share it did not already own in 21st Century (39%) for approx. USD 759m.
- Subsequently, 21st Century was integrated into AIG Personal Lines business, which included Agency Auto, AIG Direct and the Private Client Group (PCG) businesses.
- 21st Century and AIG Direct were combined into new 21st Century brand at the beginning of 2009.
- Zurich and Farmers Exchanges will acquire 21st Century (including the former AIG Direct) and Agency Auto.
- AIG will retain its Private Client Group (PCG) business.



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Strategic rationale



The acquisition is a “*Game Changing Move*” for Farmers

- Unique opportunity to acquire scarce asset – direct platform – and achieve immediate scale in fastest-growing channel
 - #3 in US traditional direct channel
 - No alternative assets exist
 - Investment in organic growth estimated at 10+ years
- Supports US Personal Lines strategy
 - Fee-based and capital-light business model
 - Reliable, expected growing earnings / cash flows at attractive margins
- Significant cross-selling opportunities
 - More than 1.5 million direct auto customers with over 500,000 new customers and 2.5 million new quotes per year expected
- Significant enhancement to Farmers’ franchise and customer reach
 - 4x increase in East Coast auto business
 - 2x increase in Spanish-speaking customer segment
- Further diversification of Farmers’ book of business as additional auto business reduces relative CAT exposure

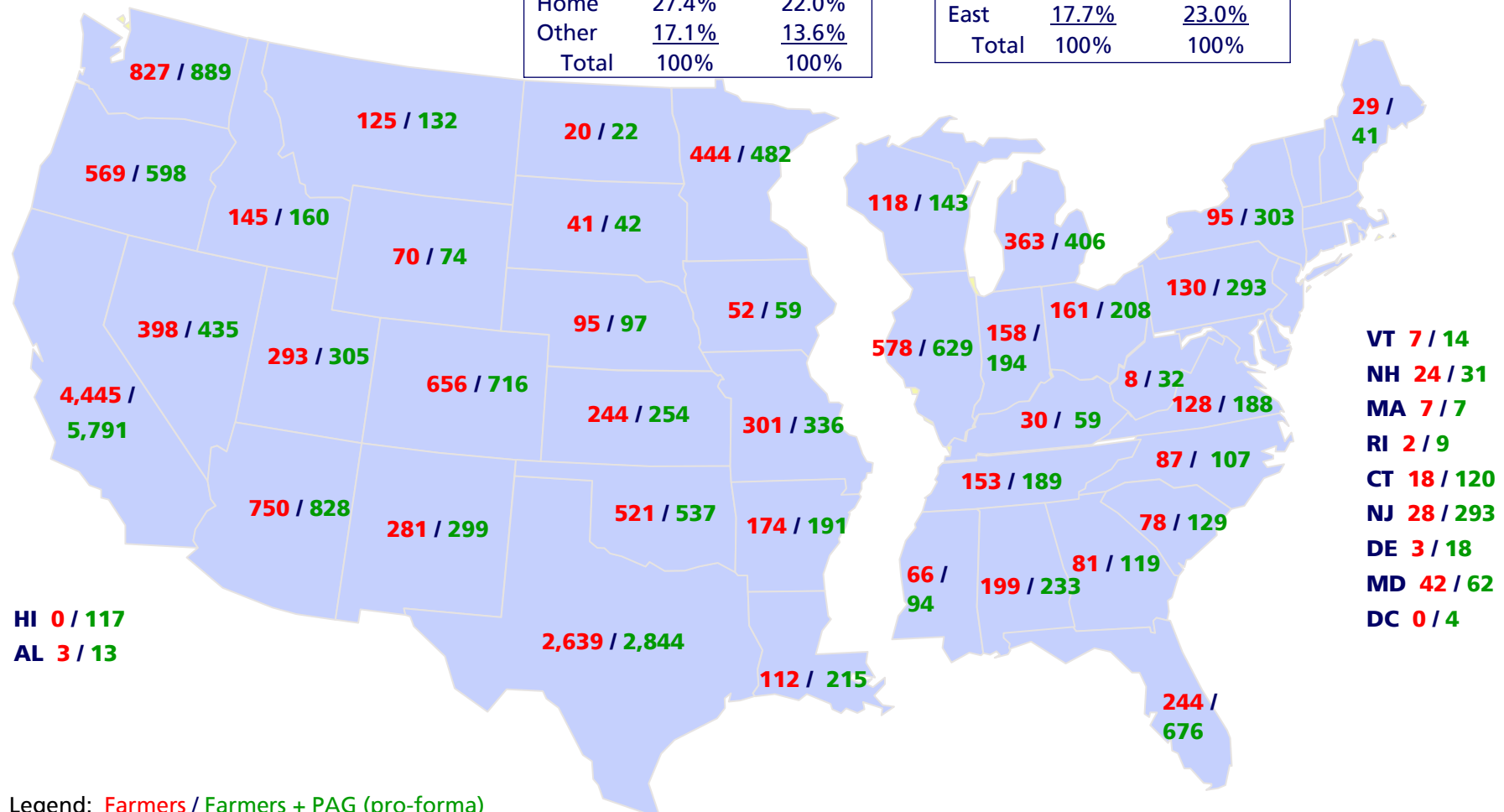
PAG helps build out Farmers' footprint



2007 DWP, All-lines (in USD millions)

Product Mix Shift to Auto		
	Farmers	Farmers + PAG
Auto	55.5%	64.4%
Home	27.4%	22.0%
Other	17.1%	13.6%
Total	100%	100%

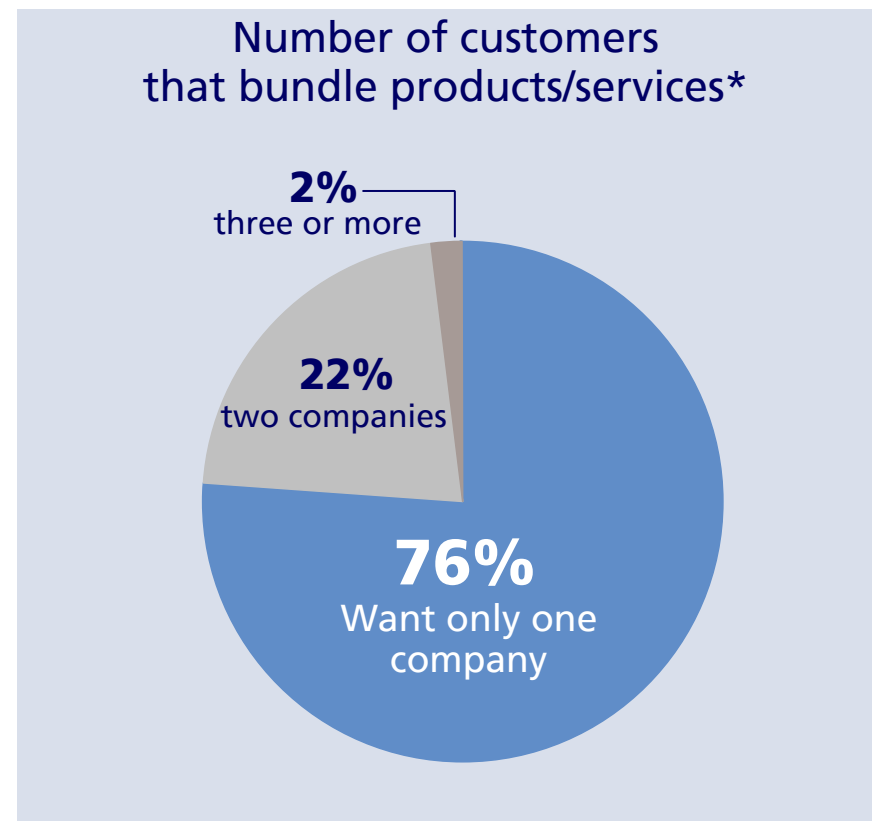
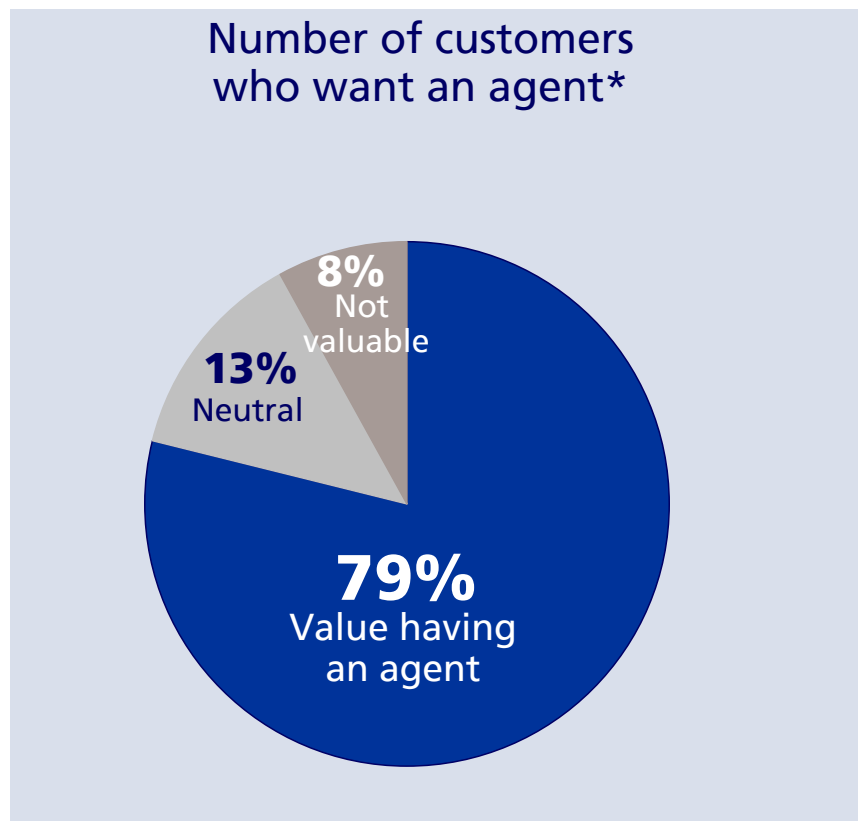
Geography Mix Shift to East		
	Farmers	Farmers + PAG
West	82.3%	77.0%
East	17.7%	23.0%
Total	100%	100%



While customers still value an agent & bundled products, their changing preferences are creating challenges for both Agent Based and Direct sellers



As a result competitors are converging towards a hybrid distribution model



PAG and Farmers integrated multi-channel distribution strategy mitigates channel conflict by creating & optimizing agency growth opportunities



"Large multi-channel distribution footprint & great customer reach"



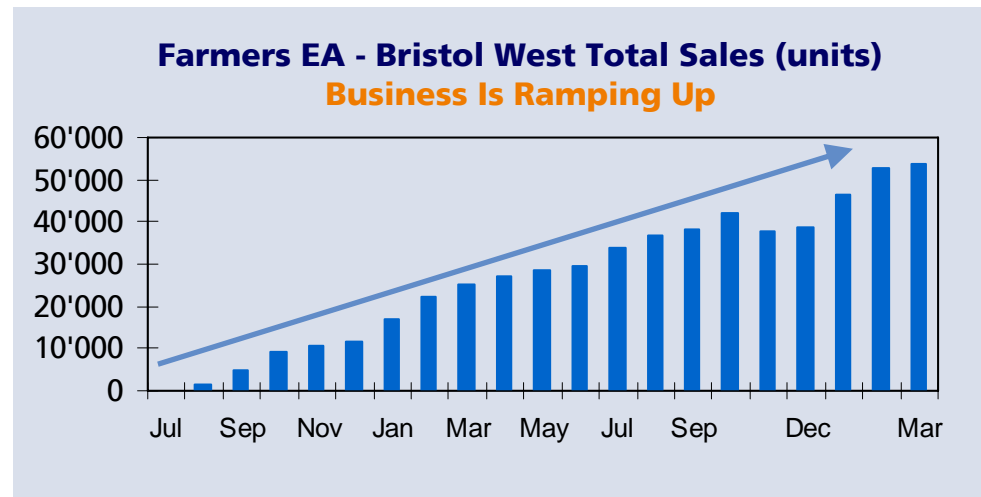
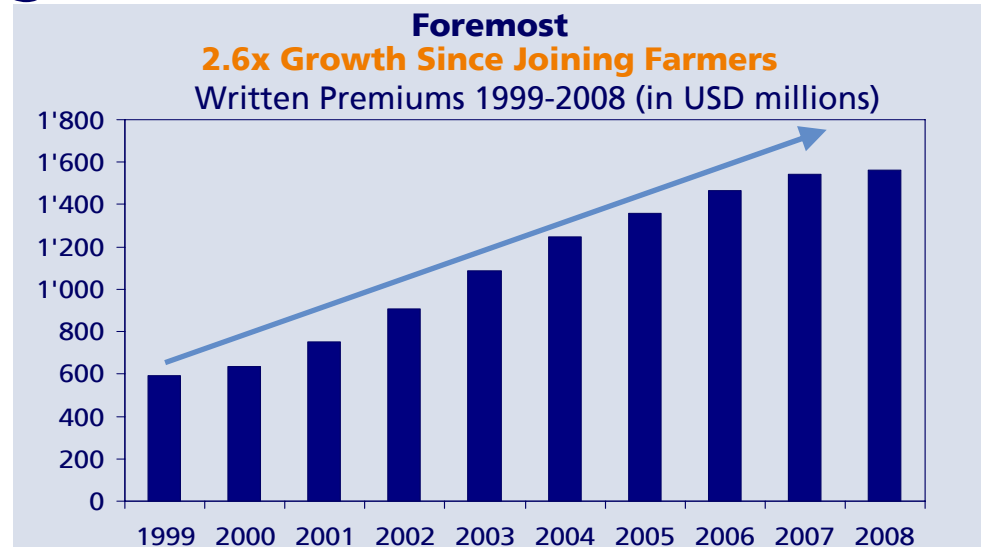
FARMERS®

"Broad product portfolio, multi-product discounts, and bundled offers"

PAG direct benefits for Exclusive Agents (EA)

- Expanded "customer reach" with access to the direct customer segment
- Bigger and more productive agencies as they will have access to PAG Direct leads.
- To accelerate Farmers Exclusive Agents expansion
- Access to PAG Direct policies as cross-sell leads for homeowners, life, and investment products sales.
- Stronger agencies to
 - Maximize customer reach
 - Maximize flow of leads
 - Increase opportunities for new business
- Additional cross-sell opportunities and optimized lifetime customer value

Farmers has a demonstrated track record of effective post-M&A integration and growth



- Over the last 10 years Farmers has successfully integrated two major acquisitions:
 - Foremost Insurance (specialty line)
 - Bristol West (non-standard auto)
- Currently, Farmers is also integrating Zurich North America's Small Business book into Farmers' overall US Small Business insurance operation
- Results of these acquisitions have been outstanding as the cross channel integration and synergy of introducing new products into the existing exclusive agent channel have driven impressive premium growth of both new product lines

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Transaction framework



Step 1: Transfer of shares, renewal rights, reinsurance and portfolio assumption from seller to Farmers Group, Inc. (FGI)

- Acquisition of 29 entities conducting AIG's US Personal Auto Group business (Target Companies) plus the assumption of a USD 100m senior note of 21st Century.
- A portion of the targeted AIG US Personal Auto Group business is underwritten by AIG's Commercial Group Companies. Such targeted business will be transferred to the Target Companies by a combination of renewal rights, reinsurance and portfolio assumption.
- The Private Client Group business underwritten by the Target Companies is outside the scope of the transaction and will be retained by the AIG Group. Such Private Client Group business will be transferred to the AIG Commercial Group Companies by a combination of renewal rights, reinsurance and portfolio assumption.

Step 2: Sale of PAG from FGI to Farmers Exchanges

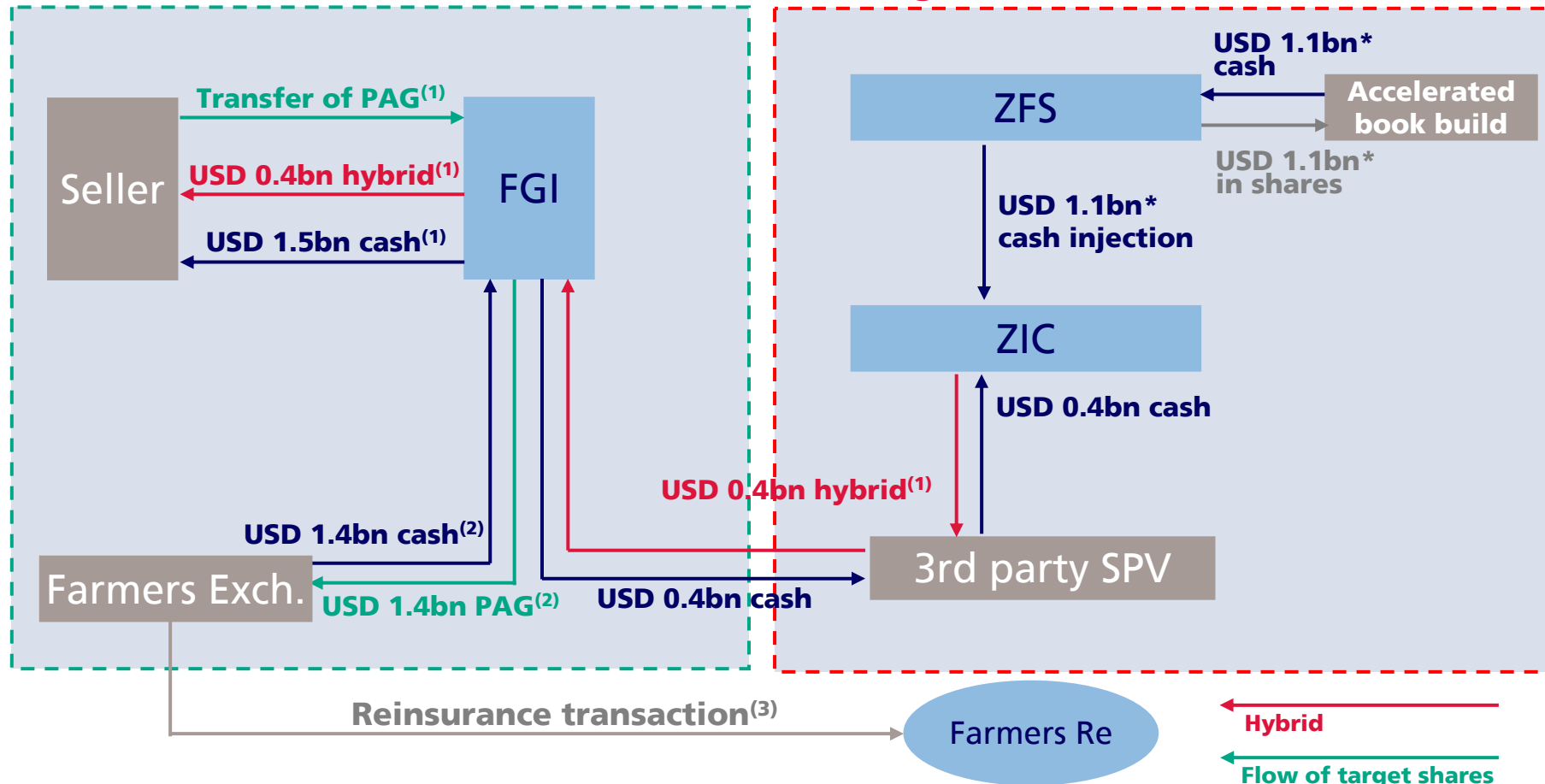
- Similar to the Bristol West transaction, immediately after the purchase by FGI, a transfer is planned from FGI to the Farmers Exchanges of the following:
- Transfer of shares in the acquired Target Companies and transfer of the claims handling services and direct marketing operations to the Farmers Exchanges plus the assumption by the Farmers Exchanges of the USD 100m senior note of 21st Century.
- Management services will be retained by FGI (along with the assets relating to such services).

Deal structure and financing – USD 1.1bn equity and USD 0.4bn hybrid security



M&A transaction

Financing transaction



Step 1: Acquisition by FGI of AIG's US Personal Auto Group (PAG)

Step 2: Sale of PAG from FGI to Farmers Exchanges

Step 3: Increase of All Lines Quota Share reinsurance treaty between Farmers Exchanges and Farmers Re from 25% to approx. 40% under existing terms.

* USD equivalent of issue in CHF

Deal structure and financing – financial impact on Zurich



- **M&A transaction impact:**

The intangible assets acquired amount to approximately USD 0.5bn, of which IFRS goodwill amounts to approximately USD 0.4bn.

- **Reinsurance transaction impact:**

The additional RBC capital requirement at the Group level is estimated at USD 0.9bn (Farmers Re reinsuring additional approx. USD 2.8bn annualized GWP (equivalent of GWP of PAG) from Farmers Exchanges under existing All Lines Quota Share reinsurance treaty).

- **Financing transaction impact:**

Zurich plans to raise USD 1.5bn as follows:

- USD 1.1bn¹ equity capital, using a mix of ZFS authorized capital and ZFS treasury shares. The cash raised by ZFS will flow down to ZIC.
- USD 0.4bn² hybrid capital: The hybrid capital will be issued by ZIC in the form of a deeply subordinated debt instrument (Capital Note) via a repackaging vehicle (SPV) and will be sold from FGI to the seller.

¹ USD equivalent of issue in CHF

² USD equivalent of issue in EUR

Financial impact – valuation estimates



		At purchase price USD 1.9bn
Valuation multiples of total deal as of Dec. 31, 2008		
US GAAP equity	USD 2.2bn	0.85x
Tangible US GAAP equity ¹	USD 1.9bn	1.0x
Valuation metrics for Zurich²		
EPS accretion		expected in year 1
Price-to-earnings multiple		approx. 7x
Internal rate of return		approx. 25%

¹ US GAAP tangible equity as of 12/31/2008 (adjusted for goodwill, deferred advertising costs and certain other items)

² Blended for Farmers Management Services (management company) and Farmers Re

Impact on regulatory and economic solvency



in USD billions, approximated and rounded	Before PAG as of Jan. 1, 09	PAG impact	After PAG	Financing impact	After PAG and Financing (pro-forma)
Economic financial strength¹					
- AFR	27	-0.5	26.5	1.5	28.0
- RBC	28	0.9	28.9		28.9
- Economic solvency	95%				96%
Group's Solvency I²					
- Eligible equity	19.4 ³	-0.4	19.0	1.5	20.5
- Required solvency capital	12.1	0.5	12.6		12.6
- Regulatory solvency	160%³				162%

Attractive financing mix is expected to lead to:

- Economic solvency to be marginally up
- Regulatory solvency (Solvency I) to be slightly up

¹ Economic financial strength is based on available financial resources (AFR) **at the beginning of period** and expected risks to be taken during period (RBC). Economic financial strength is based on **AA calibration**.

² Solvency I requirements in accordance with the Swiss insurance supervisory law; ratios as of Dec. 31, 2008.

³ Finalized and as filed with the Swiss regulator

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Summary – AIG's US Personal Auto Group provides a unique and "Game Changing" opportunity at an attractive price



- Direct channel is the fastest growing channel for US motor business and is forecasted to reach USD 37bn by 2010. PAG immediately expands Farmers customer reach to include the fastest growing segment.
- Zurich and Farmers have relevant experience in the direct channel:
 - Zurich currently has leading direct businesses in European markets and Japan.
 - Farmers currently has an Affinity Direct capability in its Foremost Specialty Group.
- Farmers has a track record of successful integration with Bristol West, Foremost, and the in-process Zurich Small Business acquisitions.
- PAG is a strong strategic fit that will accelerate Farmers growth strategy while providing growth synergies.
- Addition of the PAG book further diversifies the overall Farmers book of business as relative CAT exposure is reduced.
- Integration with Farmers multi-line, agency model significantly enhances the value of the PAG asset.
- In summary, PAG provides Farmers with a unique and "Game Changing" opportunity at an attractive price.

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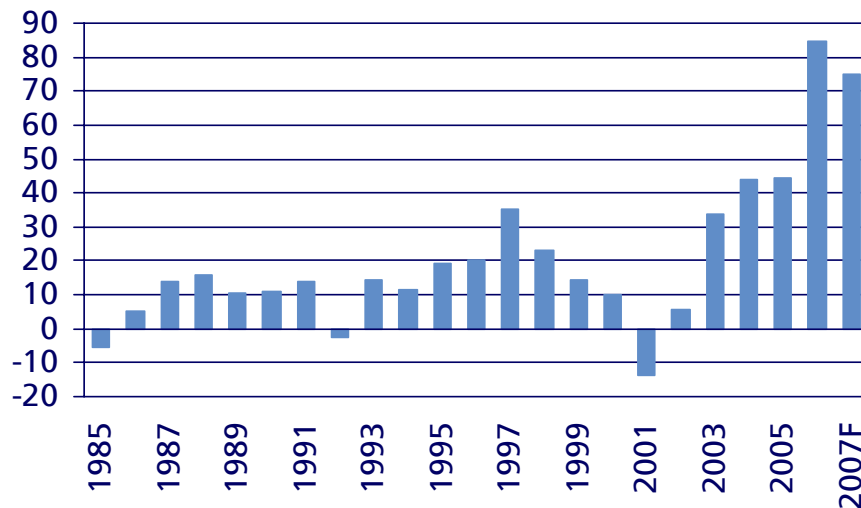
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Farmers' unique structure has created a history of reliable and steady earnings growth...



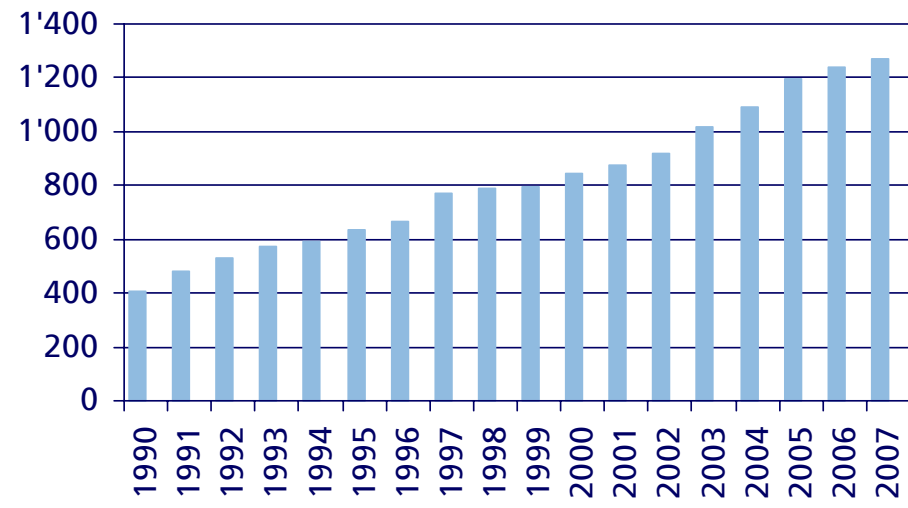
US P&C Industry Income²

in USD billions



Farmers Management Services Underlying Business Operating Profit

in USD millions



>7% CAGR since 1990

¹ Zurich Financial Services has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides management services to the Farmers Exchanges and receives fees for its services.

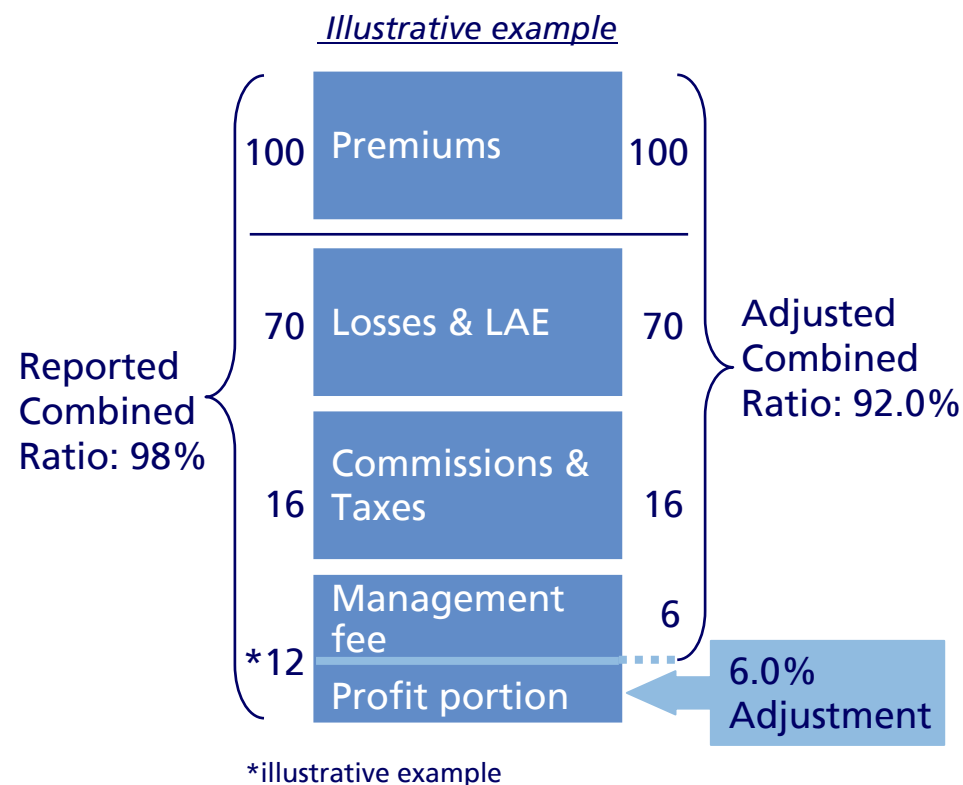
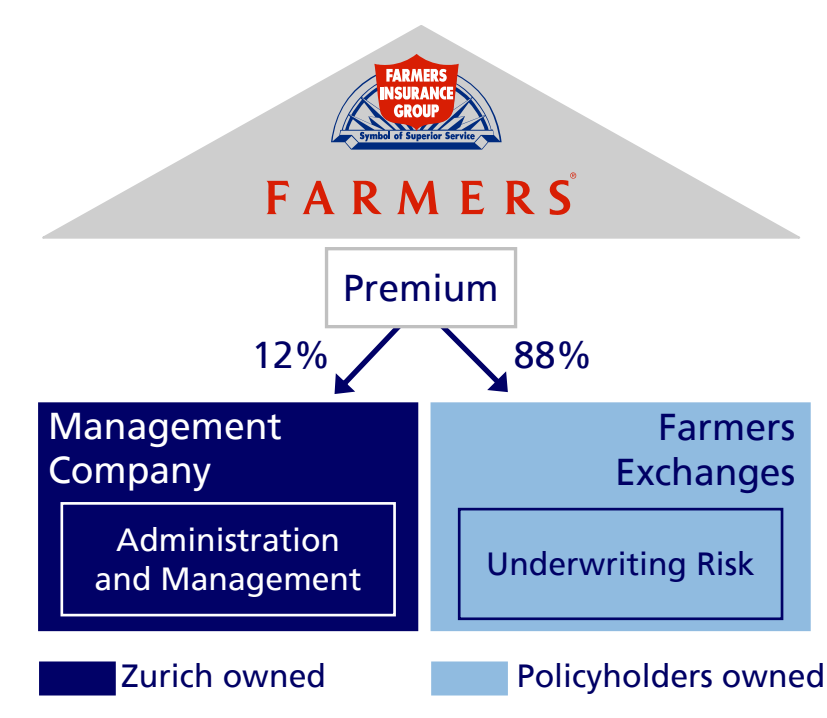
² Source: ISO, 2007 estimate: AM Best

Farmers¹ unique structure



... as it insulates management company earnings from volatility of underwriting results. This structure is also unique when compared to the industry.

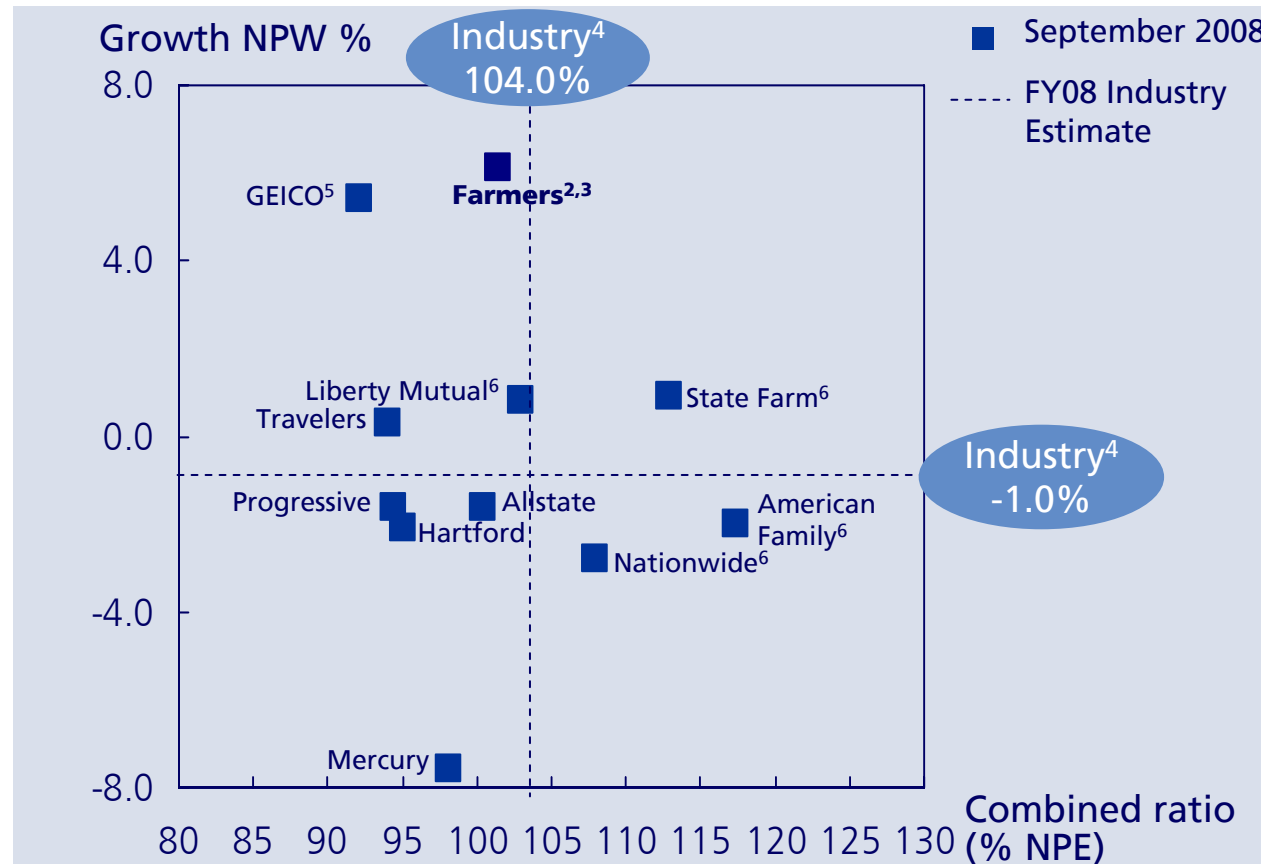
Simplified Structure & Premium Distribution



¹ Zurich Financial Services has no ownership interest in the Farmers Exchanges. Farmers Group, Inc., a wholly owned subsidiary of the Group, provides management services to the Farmers Exchanges and receives fees for its services.

Farmers also continues to outperform creating a history of reliable and steady earnings growth

Growth vs. GAAP Combined Ratio^{1,6}



- Continue to outperform the industry
- Over 11 consecutive quarters of profitable growth
- Farmers business model mitigates volatility of underwriting
- Only carrier in the Top 3 that is profitably growing market share

¹ Source: Media releases and investor supplements, except for Farmers and non-public competitors.

² Reflects GWP before APD and Quota Share treaties. Combined ratio excludes Quota Share and APD treaties and was adjusted for Farmers Management Services' profit portion of management fees.

³ Farmers results include Zurich SBS. Zurich SBS results exclude the portfolio transfer.

⁴ Source of FY08 estimate: Conning Property-Casualty Forecast & Analysis By Line Of Insurance Q408 released 12/22/08 (weighted for Farmers' LOBs). CR on STAT basis.

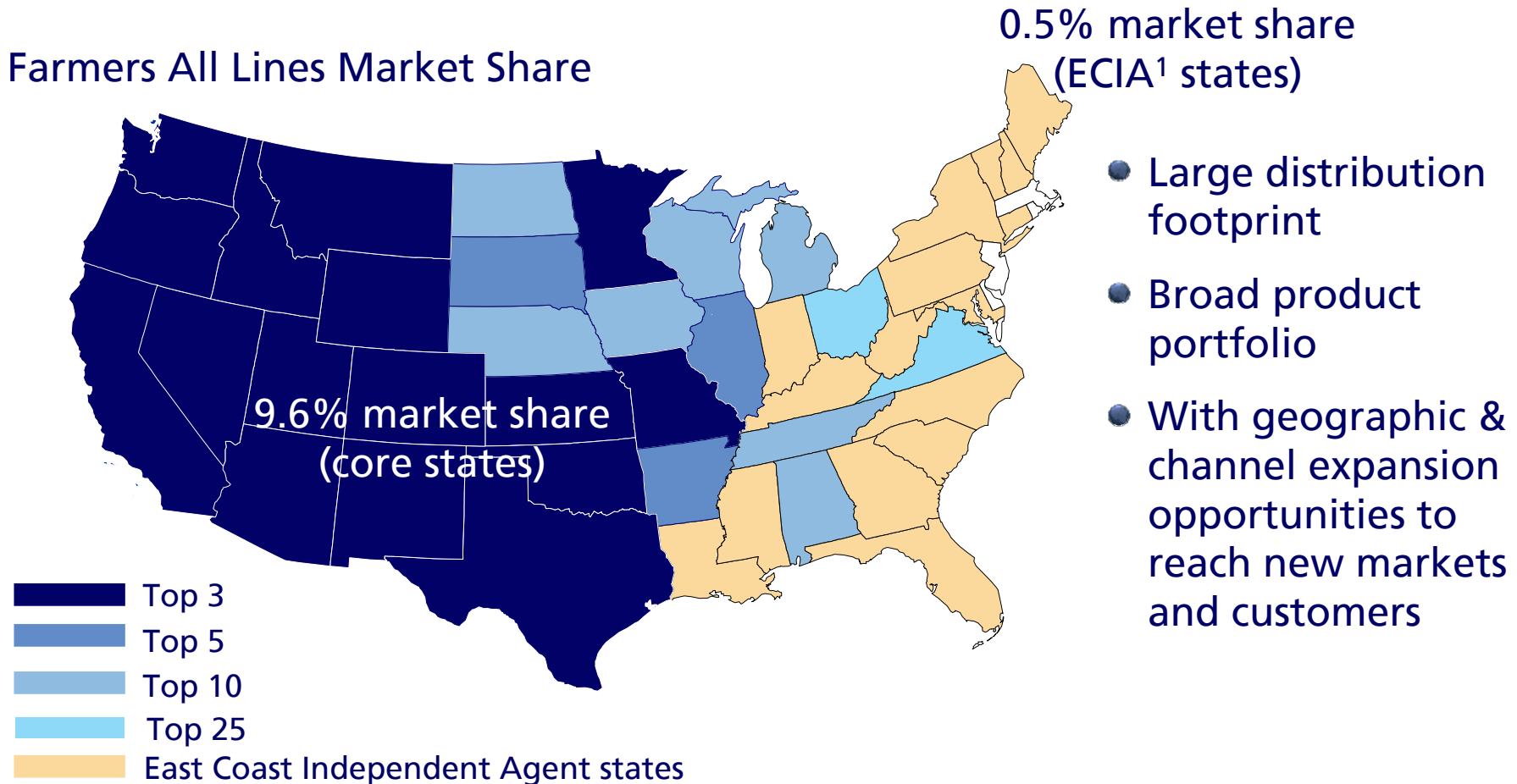
⁵ Based on NPE. NPW is not available on quarterly basis.

⁶ Source for non-public competitor data: AMBest database. CRs on STAT basis. Liberty Mutual restated to include Safeco.

Already a market leader in core states... with geographic and channel expansion plans to be a leading player nationally



Farmers All Lines Market Share



Source: AM Best 2007, Personal Lines (Home multi-peril, All PPA)

¹ East Coast Independent Agent